RV BUSINESS

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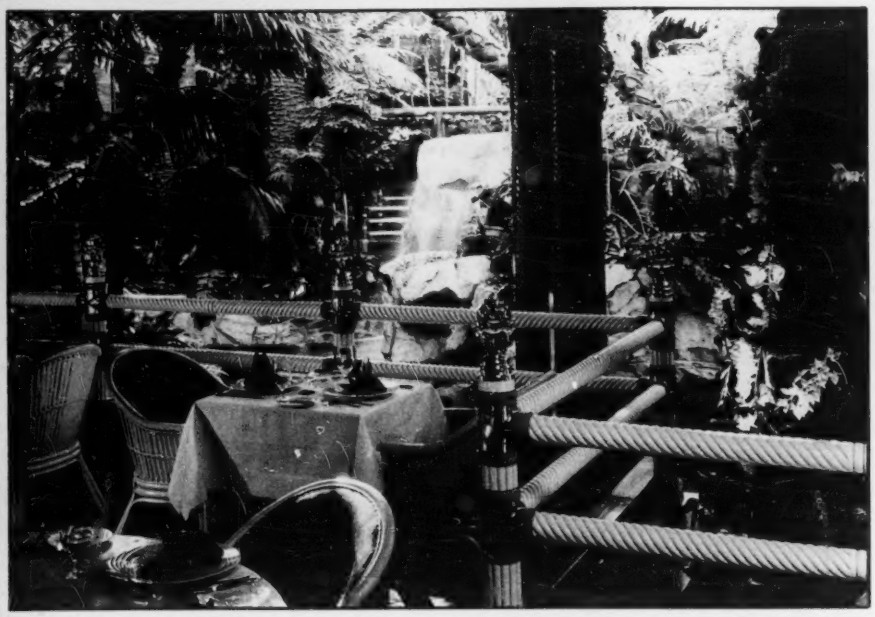

RVDA/WDA CONVENTION: The extravagant Mirage hotel in Las Vegas, Nev., is the appropriately exciting setting for the first-ever joint convention/expo of RVDA, WDA and RVDA of Canada. See page 28.

RV Industry Tempers Reaction to Iraq Crisis

About the best way to sum up the RV industry's reaction to the latest Middle East crisis is to borrow a well-known phrase from Franklin Delano Roosevelt: "The only thing we have to fear is fear itself."

As of presstime, a number of industry members prudently emphasized that "it is really too early to tell" the full economic impact on the RV industry of what remained pretty much of a stalemate in the Persian Gulf into the early fall.

"I don't think that we can deny that this is a serious situation and that it could develop into something very serious for the industry," said RVIA President Dave Humphreys. "However, in looking at the situation, I think it is also important to take note of the differences that exist this time in comparison to our past experiences in 1973 and 1979. This time, we have Russia on our side, as well as the United Nations and most of the other Arab countries. Also, we didn't have the strategic oil reserves then that we have now, nor did we have the more fuel-efficient vehicles or other Third World nations coming on line with oil exports that, along with the other friendly Arab nations, will be able to make up for any shortfalls that could result from a loss of Iraqi oil or other oil in the Persian Gulf."

As past industry surveys have indicated, gasoline supply re-

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Fleetwood Foresees Era Of Industry Consolidation

The 1990s will be a decade of further consolidation for the RV industry, with fewer companies servicing an increasingly competitive and demanding marketplace, according to Elden Smith, senior vice president for Fleetwood Enterprises Inc.'s RV Group, Riverside, Calif.

And Fleetwood – the RV industry's leading manufacturer of motorhomes, travel trailers and folding camping trailers – has positioned itself to take advantage of that consolidation from both a product and after-sale service standpoint, Smith contended during Fleetwood's four regional 1991-model product showings in August and September. He pointed to the "significant dollars" that the RV leader already has invested in product development and service support in recent years.

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11 Thousand Trails Parent Exits Bankruptcy

12 ASA Co-Founder Leaves Firm

13 Glaval Opens New Plant

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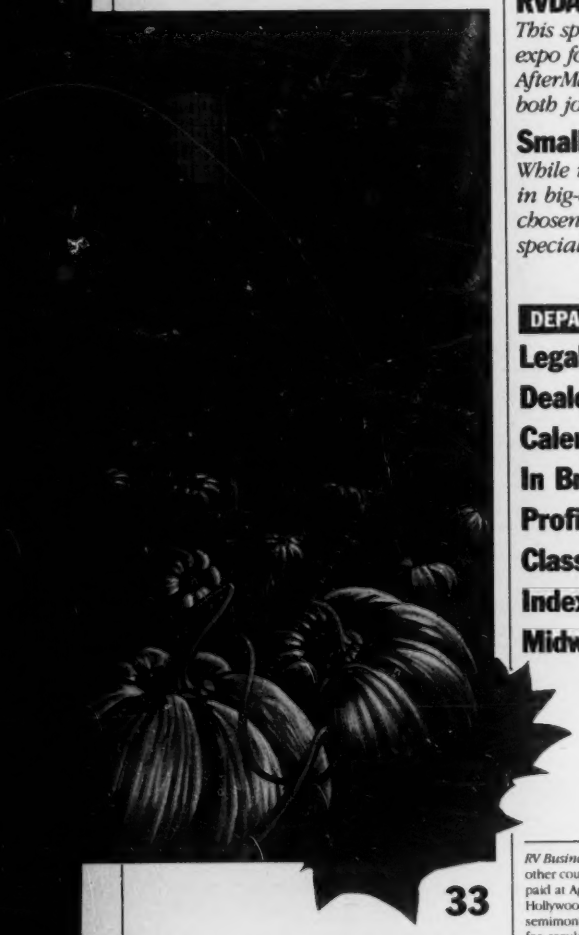

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This special section features highlights of the first-ever joint convention/expo for RVDA, WDA and RVDA of Canada. Coverage includes a list of AfterMarket Expo exhibitors and sponsors, and an extensive calendar of both joint and individual association activities and seminars.

Small-Town Dealers ____ 33

While most stories seem to associate retail success with big-time dealers in big-city settings, a large number of RV dealers have consciously chosen to locate in very small towns. These rural retailers describe their special formulas for profitable operation.

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OUTLOOK SHIFTS WITH IRAQ CRISIS

MORTON J. MARCUS

Before the Iraqi incursion into Kuwait, the forecast for the American economy and RV industry was not encouraging. Now, with higher oil prices a reality and a shooting war still a possibility (as of this writing), the short-term outlook has deteriorated. The problems of inflation, the federal budget deficit and potential recession all remain and are more potent than before.

Under these unsettled conditions, we have examined two different sets of conditions in the American economy. One control forecast is based on moderate conditions, and one alternate forecast is founded on a set of more dramatic assumptions. In the first forecast, oil prices are up, but interest rates drop slightly. In the alternate case, oil prices are even higher, and interest rates rise slightly, making it possible to say "recession."

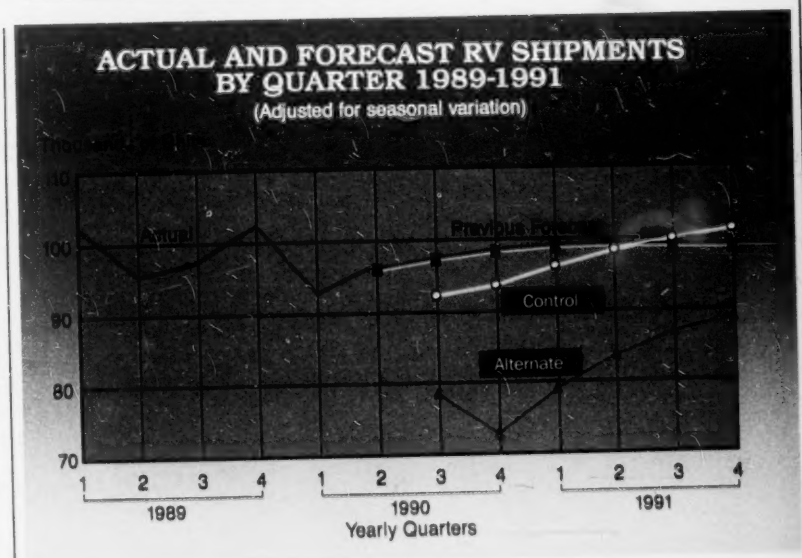

Figure 1

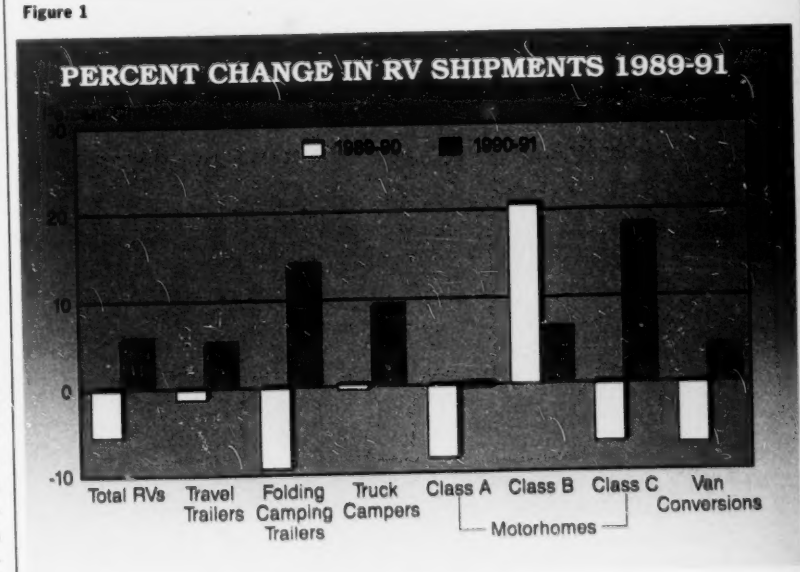

Figure 2

The RV Forecast

Our previous forecast (see RVB, July 6, 1990) was running on target when the Mideast problems developed. *(See Figure 1.)* We had anticipated that the second quarter would rebound from the sharp drop with which 1990 opened. Our second quarter forecast of 96,200 units shipped was actually too modest; the industry came in at 96,900 units, but we will accept that 0.7% error graciously.

If the economy had continued along the path established in the spring and early summer months, total shipments would have moved in a narrow range of less than 100,000 units per quarter through 1991. That was the previous forecast shown in Figure 1. Now, with the shock of higher oil prices and the uncertainty of the late summer months, we expect a decline in shipments followed by more rapid growth as we move into 1991. This is the control forecast of Figure 1. If even higher oil prices were sustained and reinforced by an anti-inflation program, RV shipments would suffer severely, as shown by the alternate forecast in Figure 1. The alternate forecast may be taken as a "Worst Case Scenario."

The economic and political events of recent weeks take less than 10,000 units off our previous 1990 forecast because seven months of the year are already gone, and because the control forecast develops a moderate growth path for the nation. The alternate forecast, however, includes major, sustained increases in petroleum prices and an economic downturn brought about by efforts to stop an inflationary drift. Where the previous forecast called for a 3.2% decline of shipments in 1990 from 1989, the control outlook indicates a 5.6% drop, and the alternate view foresees total shipments down by 14.3%. Both the previous and new control forecasts show growth in 1991, but the alternate outlook puts next year's growth at an even lower level than this year's.

In the control forecast, the RV industry suffers a 4.6% drop in the third quarter of 1990 compared with the second quarter. Then an upward path is resumed. In the alternate, that third quarter 18.8% drop is followed by another 7.7% quarterly decline, before an upward path is regained.

The Detailed RV Forecast

Previously, we had been expecting all towables to do better in 1990 than in 1989. The new control forecast has no gain in truck campers and 1990 declines in travel trailers and folding camping trailer units. *(See Figure 2.)* The good news is that, in each of these three categories, sufficient gains are made in 1991 shipments to allow next year to exceed 1989 levels.

The motorhome category is where we would expect gasoline prices to have their greatest impact, but, with more than half of 1990 gone, Figure 2 shows that Class A units will have only an 8.5% decline (or about a 3,000-unit drop) in 1990 compared with 1989. Class C's are next in feeling the impact of gas prices, with a 6.8% decline (1,400 units), while Class B van campers show an increase for the year because of stronger volumes already realized.

Under the control assumptions, van conversions are expected to decline by less than 15,000 units, or 7.1%, in 1990 and then to regain about half of that amount in the following year.

The more adverse conditions in the alternate forecast bring about a decline of more than 30,000 van conversion units (15.7%) in 1990 and no significant increase in 1991. Towables in the alternate outlook drop 11% this year, and motorhomes fall 18.2% from 1989 levels.

To understand the differences in these forecasts, let's examine business in America when the Iraqi action began.

The National Economy

The U.S. economy for the past four quarters has been growing very, very slowly. At the doorstep of both inflation and recession, Americans have been concerned about the S&L crisis, the federal government's budget imbalance and potential tax increases. The country had a full plate of worries before Iraq invaded Kuwait and more than 2 million barrels of oil per day were cut out of the world's supply lines.

Without the Iraqi action and the major U.S. response to it, the nation's economy would have been weak. Our control forecast assumes that the world price of a barrel of crude oil will be $23 and rising slowly; that the Federal Reserve Board will not attempt to fight this inflationary force but will concentrate on keeping the wolf of recession from the door by allowing interest rates to fall moderately; and that annual economic growth in Western Europe and Japan will average 3.5%.

Under these benign assumptions, the national economy advances by just 1% in real terms this year. *(See Figure 3.)* Exports are the strongest aspect of the economy under these conditions. It says little for our domestic economy when we find state and local government spending "leading the way." Neither consumer nor business spending offers much stimulus. In 1991, the economy slows still further, and the number of media stories of a recession probably will multiply. Note: This control forecast does not contain a recession.

ANNUAL GROWTH RATES AFTER ADJUSTMENT FOR INFLATION

	1989	1990	1991
		— Percent —	
Gross National Product	2.5	1.0	0.8
Consumer Spending	1.9	0.9	1.0
Business Investment	3.9	0.5	0.1
Residential Investment	–4.0	–4.3	–3.8
Exports	11.0	6.0	4.1
Imports	6.0	3.4	1.7
Govt. Purchases			
Federal	2.1	1.3	–1.2
State & Local	2.4	2.8	1.4

Figure 3

KEY FACTORS IN THE FORECAST

	1989	1990	1991
		— Forecast —	
Prime Interest Rate (%)	10.9	9.9	9.4
Value of the Dollar (1973 = 100)	98.5	92.7	91.1
Unemployment Rate (%)	5.3	5.5	6.1
% Change at Annual Rates:			
Money Supply (M2)*	3.7	5.3	5.2
Real Disposable Personal Income	2.4	1.2	–0.1
Consumer Price Index	4.8	5.7	6.1
Food & Beverages	5.7	6.0	5.0
Motor-Fuel Prices	9.4	7.8	5.8

*M2 consists of the nation's basic money supply of currency, plus demand deposits, plus savings accounts at commercial banks.

Figure 4

ANNUAL TRENDS

	1989	1990	1991
		— Forecast —	
Unit Auto Sales (millions)	8.9	9.5	9.3
Unit Housing Starts (millions)	1.4	1.3	1.2
Federal Budget Deficit (billion $)	134.3	166.4	171.5
% Change in Compensation per Manhours	2.9	2.8	3.2
Productivity	–0.2	–0.9	–0.7
Unit Labor Costs	3.1	3.7	3.9
(Compensation – Productivity = Unit Labor Costs)			

Figure 5

In this control forecast, interest rates fall slightly as does the value of the dollar. *(See Figure 4.)* The decline in interest rates and the weakening of the dollar work in favor of RV sales, but rising unemployment and a dramatic fall in the growth of real disposable personal income work against RV sales. Real income is falling because of weak earnings gains and rising inflation.

The result of these tendencies is that auto sales and housing starts slump even further. *(See Figure 5.)* The federal budget deficit (with much of the S&L debt left out) continues to rise. Sluggish production gains are not offset in today's world by manufacturing layoffs, and this brings productivity down, thereby increasing unit labor costs and inflationary pressures.

The alternate forecast, however, is an even less pretty picture. What happens when we let the price of a barrel of crude settle at $33 instead of $23? Now add in an assumption that the Federal Reserve Board and other central banks in major nations decide to fight the inflation of these higher oil prices with tighter control on the money supply. This would mean somewhat higher, not lower, interest rates. The higher world oil prices would slow growth in all industrialized nations from 3.5% down to 2.0%, hurting our exports.

OK, now we can say it: recession. The remainder of 1990 is then a period of declining real gross national product (GNP). Differences shown in Figure 1 between the control and alternate scenarios for the RV industry are dramatic.

This alternate forecast indicates results of what we view as a worst likely case scenario, yet the great slumps of 1974 and 1979 were far worse because there were gasoline availability problems. In 1982, we had skyrocketing interest rates, which are not even suggested here.

The issue is not the Persian Gulf. The major problems of America are low productivity, slow growth in both income and output, inflationary pressures, and major misdirection of our national resources. These are the long-term issues limiting the potential for the RV industry. Δ

This forecast is a product of the Center for Econometric Model Research at Indiana University, R. Jeffery Green, director. The RV industry forecast was generated by Vinay Kansal; the written interpretation of these data, however, is the sole responsibility of the author. TL Enterprises Inc. is one of several private firms supporting the center and its quarterly forecasting activities.

RETAIL SALES FIGURES ARE HOLDING

GAYLORD MAXWELL

The RV retail sales picture improved somewhat in July, according to RVB's Dealer Advisory Board (DAB). Four of the five RV types were up in new-unit sales. Almost half of the members of the board grossed more dollars during July than they did in the same month of last year. Grosses and bottom lines both got good ratings by a majority of the DAB. The service and accessory businesses received good to excellent marks.

Year-to-date, the picture was getting brighter, too. Sales volume was down 6%, but both new- and used-unit sales almost equaled those of 1989. Thirteen of the 22 DAB members grossed more dollars than in the same period of 1989.

On the flip side, there were still some negatives. The biggest-ticket category (motorhomes) was still in the minus column, with new-unit sales down 9% from last year. And, although more dealers were up in sales volume than not, 40% of them still trailed last year's figures. On a final negative note, one of our DAB members closed his doors forever in July.

The obvious major question now is: How will the current Persian Gulf situation affect the RV industry in the long run? Sales reports during the next few months will tell that story. There are good reasons to be concerned, but few reasons to panic.

Motorhomes

The downtrend in motorized not only continued in July but accelerated a bit. Eight members of the DAB who sell that type were off the pace in new units for the month; seven were up, and a couple were the same. Some of the large dealers are really taking it on the chin, but, generally, the declines weren't severe.

Year-to-date, the picture is getting brighter. Thirteen DAB members grossed more than in the same period of 1989.

On the positive side, grosses on all motorized units were good.

Year-to-date, the news wasn't any better. Motorhome sales for well over half of the DAB members who sell them were off. The Iraq problem certainly is not going to help sales of this type.

Travel Trailers

Continuing the pace set early in the year, July sales were up in both new and used units. Although the number of dealers up in sales was about equally balanced by the number of those who were down, changes were quite small. Profits were generally rated good; however, three dealers rated them excellent.

Year-to-date, sales of new units were up 18%; 16 dealers' sales were up, and only four were down.

While there's no explanation for the dramatic increase in sales of this RV type this year, it is a very welcome and long-overdue situation. Hopefully, it will continue.

Truck Campers

A tremendous upsurge of sales by one of the DAB camper specialists pushed the percentage figures off the wall this month. Both new and used units did well. Profits were rated from fair to excellent.

Year-to-date, new-unit sales were still lagging a bit behind 1989, but not by much.

There seems to be some resurgence of interest in this RV type. The crisis with Iraq could create even more interest as more truck owners opt for smaller rigs.

	NEW UNITS						USED UNITS					
	FOR MONTH			YEAR-TO-DATE			FOR MONTH			YEAR-TO-DATE		
	JULY 1990	JULY 1989	% CHANGE	1990	1989	% CHANGE	JULY 1990	JULY 1989	% CHANGE	1990	1989	% CHANGE
MOTORHOMES	155	208	−25	993	1214	−18	151	179	− 16	1085	1195	− 9
TRAVEL TRAILERS	153	143	+ 7	924	792	+17	155	134	+ 16	780	720	+ 8
TRUCK CAMPERS	41	28	+46	222	237	− 6	31	13	+138	144	104	+38
CAMPING TRAILERS	105	81	+24	765	750	+ 2	32	49	− 35	225	243	− 7
FIFTH WHEELS	47	43	+ 9	355	303	+17	24	27	− 11	194	186	+ 5

	FOR MONTH			YEAR-TO-DATE		
	JULY 1990	JULY 1989	% CHANGE	1990	1989	% CHANGE
SALES VOLUME	$16,438,000	$18,892,000	−13	$105,803,000	$112,589,000	−6
TOTAL UNIT SALES	894	905	− 1	5,687	5,744	−1
NEW-UNIT SALES	501	503	− 1	3,259	3,296	−1
USED-UNIT SALES	393	402	− 1	2,428	2,448	−1

The "DAB Perspective" is a compilation of data provided by *RV Business'* Dealer Advisory Board, a group comprised of 23 dealers representing a cross section of the U.S. dealer body.

Gaylord Maxwell, chairman; **Dave Altman,** Baldwin Park, Calif.; **Bob Azevedo,** Sunnyvale, Calif.; **Jack Cole,** Pacoima, Calif.; **David McMann,** Victor, N.Y.; **Crosby Forrest,** Newport News, Va.; **Dan Gamel,** Fresno, Calif.; **Jerry Greer,** Columbus, Ohio; **Jerry Harrison,** Waco, Texas; **Robert Jensen,** Layton, Utah; **Johnny Ketelsen,** Marion, Iowa; **Newton Kindlund,** Orlando, Fla.; **Roger Kirschner,** Salem, Ore.; **Ozzie Lenhard,** Sayville, N.Y.; **Larry McClain,** Oklahoma City, Okla.; **Delores McNally,** Portland, Ore.; **Annette Miller,** Fayetteville, N.C.; **Steve Moran,** Warwick, R.I.; **Tom Schaeffer,** Shoemakersville, Pa.; **Mel Shipp,** Chattanooga, Tenn.; **Jack Sisemore,** Amarillo, Texas; **Bill Thomas,** Bridgeton, Mo.; **Randy Thompson,** Crystal Lake, Ill.

This report is an attempt to reflect the current retail sales picture; it does not purport to indicate RV production or factory sales to dealers.